



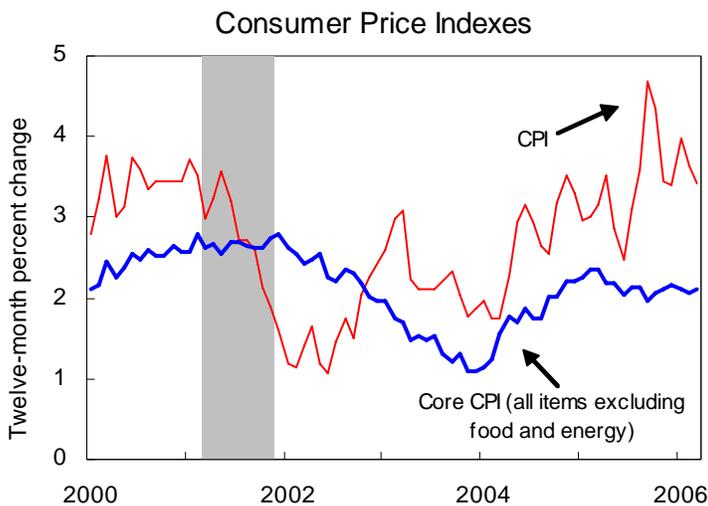
WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

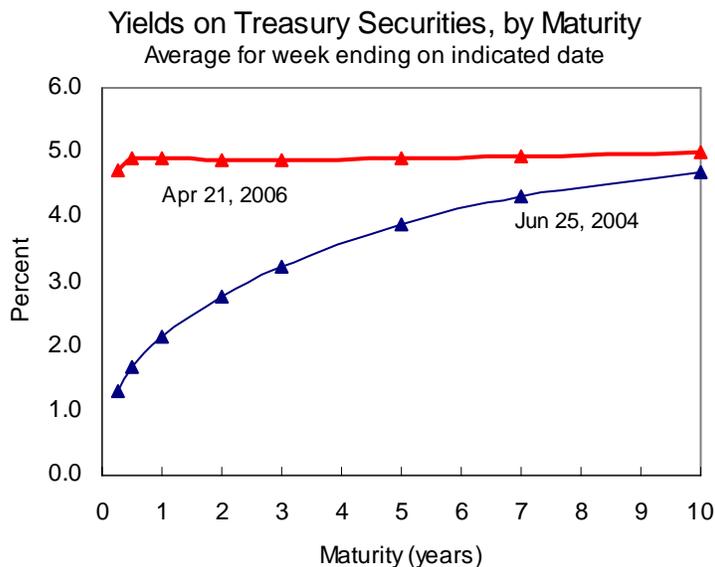
April 25, 2006

Energy Prices Are Boosting Inflation, Eroding Workers' Paychecks



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.



Source: Board of Governors, Federal Reserve System.

- Inflation picked up in March as energy prices accelerated.** The consumer price index (CPI) rose by 0.4 percent last month, following a 0.1 percent gain in February. Rising energy prices contributed 0.2 percentage point to overall inflation in March. Gasoline prices were up 3.6 percent last month, following a 1.0 percent dip in February. The core CPI (which excludes changes in the volatile food and energy prices) rose 0.3 percent in March, the largest increase in 12 months. Nevertheless, the core CPI was just 2.1 percent higher than it was in March 2005, while overall CPI was 3.4 percent higher (see top chart).
- Workers' earnings failed to keep pace with inflation over the past year.** The real (inflation-adjusted) usual weekly earnings of the typical full-time wage and salary worker were 1.3 percent lower in the first quarter of 2006 than they were a year earlier. Real earnings at the bottom of the distribution (the 10th percentile) fell an even larger 1.7 percent. A different measure, the real average hourly earnings of production or nonsupervisory workers in private nonfarm establishments fell 0.2 percent in March and is down 0.1 percent from a year ago.
- Gasoline prices have continued rising in April.** The nationwide average retail price of regular gasoline reached \$2.91 per gallon on Monday, just over 40 cents above the price at the end of March. Rising crude oil prices are a key contributor to rising pump prices: the price of West Texas Intermediate crude oil averaged \$71.95 per barrel last week, up \$10.12 from its level just four weeks earlier.
- Long-term interest rates have begun to edge up.** The interest rate on 10-year Treasury notes was 5.02 percent last week, up 0.33 percentage point from four weeks earlier. Market analysts attribute that rise to perceptions of higher inflation. However, long-term rates have not risen nearly so much as short-term rates since mid-2004 when the Federal Reserve began tightening monetary policy (see bottom chart).

The Economy at a Glance	Mar	Feb	Jan	Dec	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)*	—	—	—	—	n.a.	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	7.4	6.2	-4.7	12.7	4.5	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	81.3	81.0	80.7	81.1	81.0	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.8	4.7	4.9	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	1960	2126	2307	1989	2131	2059	2101	2044	2072	1950
Real Disposable Personal Income (% growth)*	n.a.	2.4	1.2	6.2	n.a.	6.7	-1.4	0.2	1.4	3.4
Retail Sales (% growth)	7.8	-9.3	43.2	5.1	13.4	1.9	8.5	9.5	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-0.5	-0.5	-0.3	n.a.	-0.2	-1.6	-0.2	-0.4	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	4.9	1.2	8.7	-1.2	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	1.2	2.4	1.2	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)*	—	—	—	—	n.a.	3.2	3.2	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	n.a.	-0.5	4.2	2.4	2.9	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.51	4.43	4.24	3.89	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	4.72	4.57	4.42	4.47	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.59	4.49	4.29	4.16	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11144	10971	10872	10828	10996	10616	10544	10382	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Existing Home Sales: March 2006** [Release: Tuesday, April 25]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: March 2006** [Release: Wednesday, April 26]
- **New Residential Sales: March 2006** [Release: Wednesday, April 26]
- **Gross Domestic Product: First Quarter 2006 (Advance)** [Release: Friday, April 28]
- **Employment Cost Index: March 2006** [Release: Friday, April 28]
- **Personal Income and Outlays: March 2006** [Release: Monday, May 1]